



**Board of Selectmen
TOWN OF NEEDHAM
AGENDA FACT SHEET**

MEETING DATE: 10/09/2012

Agenda Item	Approve Sale of Bonds and Notes
Presenter(s)	David Davison, Assistant Town Manager/Finance Evelyn Poness, Town Treasurer/Collector

1.	BRIEF DESCRIPTION OF TOPIC TO BE DISCUSSED
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We will review the results of the bond sale with the Board and discuss the S&P rating.

2.	VOTE REQUIRED BY BOARD OF SELECTMEN	YES	NO
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Suggested Motions: (please note there are EIGHT motions to be acted upon by the Board)

Motion A

Move to approve the sale of the \$12,244,000 General Obligation Municipal Purpose Loan of 2012 Bonds of the Town dated October 15 (the "Bonds"), to Morgan Stanley & Co., LLC at the price of \$13,095,144.30 and accrued interest is hereby approved and confirmed. The Bonds shall be payable on July 15 of the years and in the principal amounts and bear interest at the respective rates, as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
2013	\$919,000	2.00%	2023	\$510,000	4.00%
2014	910,000	2.00	2024	510,000	2.00
2015	905,000	3.00	2025	505,000	2.00
2016	900,000	3.00	2026	505,000	2.00
2017	740,000	3.00	2027	500,000	2.25
2018	590,000	4.00	2028	500,000	2.25
2019	590,000	4.00	2029	500,000	2.25
2020	590,000	4.00	2030	500,000	2.50
2021	590,000	4.00	2031	445,000	3.00
2022	590,000	4.00	2032	445,000	3.00

Motion B

Move to approve the sale of a \$5,008,000 1.50 percent General Obligation Bond Anticipation Note of the Town dated October 15, 2012, and payable July 2, 2012 (the "Note"), to Mitsubishi UFJ Securities (USA), Inc. at par and accrued interest plus a premium of \$46,223.84.

Motion C



**Board of Selectmen
TOWN OF NEEDHAM
AGENDA FACT SHEET**

Move to approve the marketing and sale of the Bonds, the preparation and distribution of a Notice of Sale and Preliminary Official Statement dated September 25, 2012 and a final Official Statement dated October 3, 2012 (the "Official Statement"), each in such form as may be approved by the Town Treasurer, be and hereby are ratified, confirmed, approved and adopted.

Motion D

Move to approve the marketing and sale of the Note, the preparation and distribution of a Notice of Sale and Preliminary Official Statement dated September 26, 2012, and a final Official Statement dated October 3, 2012, each in such form as may be approved by the Town Treasurer, be and hereby are ratified, confirmed, approved and adopted.

Motion E

Move to approve that the Bonds shall be subject to redemption, at the option of the Town, upon such terms and conditions as are set forth in the Official Statement.

Motion F

Move to approve that the Town Treasurer and the Board of Selectmen be, and hereby are, authorized to execute and deliver continuing and Significant events disclosure undertakings in compliance with SEC Rule 15c2-12 in such forms as may be approved by bond counsel to the Town, which undertakings shall be incorporated by reference in the Bonds and Note, as applicable, for the benefit of the holders of the Bonds and Note from time to time.

Motion G

Move to approve that we authorize and direct the Treasurer to establish post issuance federal tax compliance procedures in such form as the Treasurer and bond counsel deem sufficient, or if such procedures are currently in place, to review and update said procedures, in order to monitor and maintain the tax-exempt status of the Bonds and Notes.

Motion H

Move to approve that each member of the Board of Selectmen, the Town Clerk and the Town Treasurer be and hereby are, authorized to take any and all such actions, and execute and deliver such certificates, receipts or other documents as may be determined by them, or any of them, to be necessary or convenient to carry into effect the provisions of the foregoing votes.

3.

BACK UP INFORMATION

YES

NO

(Describe backup below)

- a. Cover Memo Dated October 5, 2012
- b. Standard and Poor's Rating

Memorandum

To: Board of Selectmen
From: David Davison, Assistant Town Manager/Director of Finance
CC: Kate Fitzpatrick, Town Manager; Evelyn Poness, Treasurer/Collector;
Michelle Vaillancourt, Town Accountant
Date: October 5, 2012
Re: Debt Sales

On October 1, 2013 we were informed that the Town maintained its "AAA" rating with Standard and Poor's. We held a telephone conference call with them on 24th of September. The review was shorter in duration since we had a more in-depth review last May for the June sale. We reviewed the timing of the FY2012 audit (especially noteworthy with the change over of the financial software underway), and when the results would be available. We discussed pending items for FY2013 some on the October 29, 2012 Special Town Meeting warrant such as collective bargaining, capital, and operating budget amendments. We mentioned the recent update to the five-year Pro Forma and the concerns regarding the Federal budget, and our plans for the upcoming FY2014 budget season. A copy of the Standard and Poor's rational for the rating is attached.

The Town received six competitive bids for the 20 year \$12,244,000 bond a reflection of the Town's overall credit quality. The lowest bidder, Morgan Stanley & Company LLC, offered a coupon rate that ranges from a low of 2.000% to a high of 4.000% per year, with a premium of \$851,144.30. The overall structure of the bid resulted in a true interest cost (TIC) of 1.986193% this rate is even lower than the Bond approved by the Board last October (TIC of 2.351198%) and June of 2011 (a TIC of 2.811857%).

The Town also received seven bids for its \$5,008,000 bond anticipation note (BAN). The lowest bidder, Mitsubishi UFJ Securities offered an interest rate of 1.50% with a premium of \$46,223.84 which results in a net interest cost (NIC) of 0.2071% and is the basis for award. Attached are summaries of the bids received for the two sales.

The proceeds of the debt issues will fund expenses related to a number of capital projects, including the Newman School HVAC project (\$9,000,000), the Public Services Administration Building (\$100,000), the Pollard School roof project (\$725,000), the Senior Center (\$5,000,000), and the Town Hall (\$970,000). The initial costs for one of the land purchases (\$52,500) approved this past spring by Town Meeting and several public works infrastructure projects (\$906,500) including the Booth Street betterment (\$8,000), and design costs for the Reservoir B sewer pump station (\$90,000) project are part of this financing package. The bond issue also included \$400,000 for the new fire engine that was purchased this year.

The Board will be asked to approve the sale of the bonds and the note. Upon approval, the Board will need to execute several documents that will be brought to the meeting.

Please do not hesitate to contact me if you have any questions prior to the meeting.

**Town of Needham
Bond Sale
\$12,244,000**

**Notice Date
Date of Sale
Date of Board Action
Settlement
Maturity**

**10/03/2012
10/09/2012
10/15/2012
07/15/2030**

**Rating
By Standard & Poor's Public Finance**

AAA

01-Oct-12

Bidder	Amount	Range	Interest	Premium	Net Interest	True Interest Cost Rate
Bank of America Merrill Lynch	\$12,244,000	3.000% - 5.000%	\$3,623,227.50	\$1,064,939.26	\$2,558,288.24	0.221448%
Janney Montgomery Scott LLC	\$12,244,000	1.000% - 4.000%	\$3,193,239.37	\$800,472.22	\$2,392,767.15	0.209698%
J.P. Morgan Securities LLC	\$12,244,000	3.000% - 5.000%	\$3,672,902.50	\$1,174,923.20	\$2,497,979.30	0.215285%
Morgan Stanley & Co, LLC	\$12,244,000	2.000% - 4.000%	\$3,115,710.00	\$851,144.30	\$2,264,565.70	0.198619%
Robert W Baird & Co., Inc.	\$12,244,000	2.000% - 4.000%	\$3,654,160.00	\$1,038,826.75	\$2,615,333.25	0.224933%
UBS Financial Services Inc	\$12,244,000	2.000% - 4.000%	\$3,391,411.88	\$1,031,104.28	\$2,360,307.60	0.204451%

Prepared by Finance Director October 5, 2012

Town of Needham
Note Sale
\$5,008,000

Notice Date

Date of Sale

Date of Board Action

Settlement

Maturity

10/03/2012

10/09/2012

10/15/2012

07/02/2013

260.00

360.00

Rating SP-1+ 01-Oct-12
By Standard & Poor's Public Finance

Bidder	Amount	Rate	Interest	Premium	Net Interest	NIC
Eastern Bank	\$5,008,000	1.00%	\$35,751.56	\$27,028.18	\$8,723.38	0.2440%
Janney Montgomery Scott LLC	\$5,008,000	1.00%	\$35,751.56	\$24,639.36	\$11,112.20	0.3108%
Jefferies & Company	\$5,008,000	1.25%	\$44,689.44	\$35,909.00	\$8,780.44	0.2456%
Mitsubishi UFJ Securities (USA)	\$5,008,000	1.50%	\$53,627.33	\$46,223.84	\$7,403.49	0.2071%
Morgan Stanley & Co, LLC	\$5,008,000	1.25%	\$44,689.44	\$37,059.20	\$7,630.24	0.2134%
Oppenheimer & Co.	\$5,008,000	1.00%	\$35,751.56	\$16,877.00	\$18,874.56	0.5279%
TD Securities	\$5,008,000	1.00%	\$35,751.56	\$27,293.60	\$8,457.96	0.2366%

Prepared by Finance Director October 5, 2012

RatingsDirect®

Summary:

Needham, Massachusetts; General Obligation; Note

Primary Credit Analyst:

Victor M Medeiros, Boston (1) 617-530-8305; victor_medeiros@standardandpoors.com

Secondary Contact:

Apple Lo, Boston (1) 214-765-5861; apple_lo@standardandpoors.com

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Summary:

Needham, Massachusetts; General Obligation; Note

Credit Profile

US\$12.244 mil GO mun purp loan of bnds ser 2012 due 07/15/2032

<i>Long Term Rating</i>	AAA/Stable	New
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US\$5.008 mil GO BANs ser 2012 dtd 10/15/2012 due 07/02/2013

<i>Short Term Rating</i>	SP-1+	New
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Needham GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Needham, Mass.' series 2012 general obligation (GO) bonds and affirmed its 'AAA' long-term rating on the town's existing GO debt. The outlook is stable.

Standard & Poor's has also assigned its 'SP-1+' short-term rating to the town's GO bond anticipation notes (BANs). The BANs are payable July 2, 2013.

The short-term rating on the BANs reflects a low market risk profile score based on our revised criteria. Needham has strong legal authority pursuant to state laws to refund the BANs with long-term debt, and the town is a frequent market participant providing ongoing disclosure.

The long-term rating reflects our opinion of the town's:

- Affluent and stable property tax base with high income and property wealth,
- Strong financial position supported primarily by property taxes (with no appreciable funding interdependence with the federal government), coupled with good management policies and practices; and
- Low debt burden with rapid amortization.

Needham's full faith pledge secures the bonds. Officials plan to use bond and note proceeds to fund various capital projects. The largest use will be to fund repairs to one of its schools. Other projects include roads, bridges and sidewalk improvements.

Needham, with an estimated population of 29,000, is 10 miles southwest of Boston in one of the nation's wealthiest regions. The town's location along Interstate 95 provides convenient access to employment in Boston and the surrounding areas. The town's own local economy is stable and diverse, and its economic indicators remain very strong. The town's median household effective buying income is 188% of the national level, and unemployment has trended below state and national rates and has shown resilience during the economic downturn over the past several years. Based on our economic forecast, we expect the regional unemployment rate to remain flat into 2013. Through

July 2012, the unemployment rate averaged 4.6% compared with 6.1% in the state and 8.1% in the nation over the same period.

The tax base is primarily residential, so little assessed value (AV) concentration exists. Roughly 87% of the town's tax base is residential, while 10% is commercial and industrial. On the whole, the town's AV has remained resilient over the past several years, totaling \$7.8 billion in 2012. In our view, the town's full market value is extremely strong at \$270,000 per capita. The community's median home value is approximately 386% of the national level, and based on our forecasts, we believe that the median home prices throughout the New England region have stabilized, and in some cases, we expect to see some modest growth through 2013. Consistent with this view, the town's 2012 AV was up 3.4% over the previous year, and we believe it should remain stable through the near-term. Given its residential nature, the tax base is very diverse, in our opinion, as the 10 leading taxpayers account for just 5% of AV.

The town continues to maintain a strong level of operating flexibility heading into fiscal 2013. Moreover, most if not all, revenues appear to be stabilizing, easing near-term budgetary challenges. In fiscal 2011, the town implemented Governmental Accounting Standards Board Statement No. 54, which is intended to make fund balance reporting more consistent and transparent. The town is reporting an overall total fund balance of \$20.9 million, or roughly 17% of expenditures, which we consider very strong. The total fund balance is made up of \$6.3 million of assigned fund balance (5.3% of expenditures) and \$8.8 million of unassigned fund balance (7.2%). The town also maintains roughly \$5.2 million in committed funds, which includes the town's stabilization reserves (general and capital stabilization), which carried a \$4.7 million balance at the close of the fiscal year.

The town is projecting balanced general fund operating results, but we note that it is investing some of its reserves into capital. Nonetheless, projections provided by the town show that reserves should remain in line with its five-year average. The 2012 budget totals \$112.2 million, which is 2% more than the previous year. The budget does conservatively estimate state aid and local receipts.

Overall, we consider Needham's management practices to be "good" under Standard & Poor's Financial Management Assessment methodology, indicating that financial management practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

Including this bond issuance and net of state school construction aid and offsetting self-supporting water and sewer bonds, Needham's debt burden is moderate, in our opinion, at \$2,799 per capita, but low at 1% of total market value. Debt service carrying charges were 7% of 2011 general fund expenditures, and amortization of long-term debt, after issuance, is aggressive, with officials planning to retire about 75% of principal by 2022 and 100% by 2033.

The town is one of the few communities in the state that fully funds its other postemployment benefit (OPEB) obligation. Based on a July 1, 2011, unfunded actuarial accrued liability of \$52.6 million, the town had a funded ratio of 10.9% (\$6.4 million). In 2011, the annual required contribution (ARC) was \$3.6 million, or roughly 3% of expenditures. As of Jan. 1, 2010, for its pensions, the town was 78% funded. In 2010, the town contributed 100% of the ARC, totaling \$4.5 million (roughly 4% of budget).

Outlook

The outlook on the long-term rating is stable. We do not expect to revise the town's long-term rating within the two-year parameter of the outlook because we expect the town to continue to make the necessary adjustments to produce balanced operations as it has historically demonstrated. In our opinion, Needham's economic fundamentals should lend themselves to further development and further tax base growth over time, which will underpin future stability. While we expect additional debt issuance to push debt ratios higher, particularly as the town manages its long-term capital improvement plan, at the moment, the town's debt plans are not a credit concern due to its existing debt burden.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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